



THE MERCANTILE BANK OF CANADA

AFFILIATED WITH

FIRST NATIONAL CITY BANK



We present—in a sylvan setting typical of British Columbia—the staff of Mercantile Bank's Vancouver office.

13TH ANNUAL REPORT

Submitted to the Annual General Meeting of Shareholders
held in Montreal on December 14, 1966.

THE MERCANTILE BANK OF CANADA

AFFILIATED WITH

FIRST NATIONAL CITY BANK

HEAD OFFICE

491 Victoria Square, Montreal

MONTREAL OFFICE

495 Victoria Square

TORONTO OFFICE

120 Adelaide Street West

WINNIPEG OFFICE

244 Portage Avenue

CALGARY OFFICE

700 - 8th Avenue S.W.

VANCOUVER OFFICE

540 Burrard Street

HALIFAX OFFICE

1 Sackville Place

QUEBEC OFFICE

580 Grande Allée

OUR MOST IMPORTANT INVESTMENT IS IN THE MEN AND WOMEN WHO WILL MANAGE THE BANK IN THE FUTURE

The banking industry is facing major technological and market changes in the immediate future which will challenge the ingenuity of the best minds available. Here at The Mercantile Bank we are continually seeking out the highest calibre young men and women available to whom we believe we are in a position to offer widely diversified experience over a relatively short period of time and the opportunity to advance

as quickly as individual qualifications permit.

On these pages we present ten members of the Mercantile staff. Their ages range from 23 to 33 and nine of them received official appointments within the past three years.

We are proud to introduce them to you as representative members of our emerging management team at The Mercantile Bank of Canada.

Marilyn Halbe, Assistant Accountant — Vancouver. Miss Halbe, a native of Comox, B.C., was first employed at the Vancouver Branch of the Mercantile Bank in 1960. Before her appointment Miss Halbe was Branch Auditor in the same office. She is representative of the several other young women who have assumed important management responsibility with us during the past year or so.



Jacques Daignault, Acting Manager — Quebec City. After two years with a major financial institution, Mr. Daignault, a Montrealer, joined the Mercantile Bank in January 1965. He holds a B.A. Degree from the Université de Montréal and an LSc. Comm. from l'Ecole des Hautes Etudes Commerciales, Montreal.

Pieter J. van Kampen, Chief Accountant — Head Office. Mr. van Kampen, born in Tilburg, Holland, joined the Mercantile Bank in 1957. He earned his B.Comm this year from Sir George Williams University. His first appointment to management was in 1960 as Assistant to the Chief Accountant and in June this year he was appointed Chief Accountant.



Charles H. Teicher, Assistant Accountant — International Department. After qualifying in 1959 as a C.A. with the Ontario Institute of Chartered Accountants, Mr. Teicher spent four of the next six years in Zurich, Switzerland as an officer of a leading international firm of chartered accountants. Mr. Teicher, born in Calgary, joined the staff of the Mercantile Bank in mid-1965 and was appointed an officer in our International Department this year.



Robert H. Graham, Assistant Manager — Toronto. A native of Hamilton, Ontario, Mr. Graham was employed by Industrial Development Bank for three years before coming to the Mercantile Bank in mid-1964. He has a B.A. and an M.Comm. Degree from the University of Toronto. This Fall he attended a First National City Bank Management Conference at Quito, Ecuador. This meeting, one of many management enrichment programs available to our officers, was attended by Citibank officers from all over the world.



David C. McCutcheon, Assistant Manager — Calgary. After joining the Mercantile Bank in mid-1964, Mr. McCutcheon, another Montrealer, who holds a B.Eng. Degree from McGill University and an M.B.A. from the University of Western Ontario, spent a full year in Citibank's Petroleum Department in New York. During that period he travelled extensively, calling on that bank's petroleum clients. Mr. McCutcheon's return has made it possible for us to release a Citibank petroleum specialist for return to New York.

W. Donald Bean, Assistant Manager — Halifax. Mr. Bean is a native of Kitchener, Ontario; earned a B.A. Degree at the University of Toronto and an M.B.A. Degree at the University of Western Ontario. He joined the Mercantile Bank two years ago and was appointed to management in June of this year.

William F. Frers, Accountant — Winnipeg. Mr. Frers came to us with ten years of experience, six of it directly in banking. He joined the Mercantile Bank in Winnipeg in 1964 and was appointed Assistant Accountant in November 1965. Just recently he became our senior operating officer in Winnipeg.



Nolan F. Humphries, Assistant Accountant—Montreal. Mr. Humphries, a native of Alabama, holds B.A. and B.S. Degrees from the University of Alabama and an M.B.A. from the Harvard Business School. He is one of the officers on loan to us by First National City Bank where his banking experience began in 1963 with their Southern Asia District. After serving at Bombay, New Delhi and in The Philippines, he was transferred to our Montreal Branch four months ago.



Andre Morissette, Assistant Accountant — Montreal. Following initial experience with "Les Affaires", a weekly business review, Mr. Morissette came to the Mercantile Bank and he has now completed two years of service with us. He was appointed to a management position in our Montreal Branch in September of this year. Mr. Morissette is a native of l'Annonciation, Quebec and holds a B.Comm. from l'Ecole des Hautes Etudes Commerciales.



DIRECTORS' REPORT

The Directors take pleasure in submitting to the shareholders the Thirteenth Annual Report on the Bank's operations for the financial year ended October 31st, 1966, together with a Statement of the Assets and Liabilities of the Bank as at that date.

STATEMENT OF UNDIVIDED PROFITS

Balance of profit for the year before provision for depreciation of bank premises, but after provision for staff pension fund and after transfer to inner reserves out of which provision has been made for diminution in value of investments and loans	\$69,201
Depreciation of bank premises	67,701
Available for distribution	1,500
Balance undivided profits October 31st, 1965	7,867
Balance undivided profits October 31st, 1966	<u>\$ 9,367</u>

R. P. MacFADDEN
President

S. B. CLIFFORD
General Manager

The Quebec Branch opened last December, as planned, bringing the number of branches to seven.

Since the last Annual Meeting, Mr. H. T. Mitchell, Vancouver, has been elected to the Board and Mr. A. T. Seedhouse has been elected a Vice-President.

The loyal and efficient services of the staff are gratefully acknowledged.

R. P. MacFADDEN, President
Montreal, December 1, 1966

OFFICERS

Chairman:

J. S. Rockefeller

President:

R. P. MacFadden

Exec. Vice-Pres. and
General Manager:

S. B. Clifford

Vice-Presidents:

C. B. Brown

A. C. Howkins

A. T. Seedhouse

Deputy General Managers:

A. C. Howkins

D. C. Langford

Assistant General Manager:

R. P. Mullane

Secretary:

G. S. Lynch

Supervisors:

C. W. Arnold (Ontario)

J. R. Edds (International
Department and Personnel)

A. G. Forman (Credit)

H. F. Henry (Quebec)

D. C. Salter (Manitoba)

Managers, Head Office:

H. P. Derkx,

International Department

D. L. Diller, Foreign Exchange

D. C. King, Consumer Services

G. Markham, Operations

SENIOR BRANCH OFFICERS

Montreal:

A. H. Stampleman, Manager

Toronto:

R. W. Freeman, Manager
(effective March 1, 1967)

Winnipeg:

J. A. Conway, Manager

Calgary:

D. M. Drew, Manager

J. F. Brown, Manager,
Oil & Gas Dept.

Vancouver:

W. S. Hulton, Manager

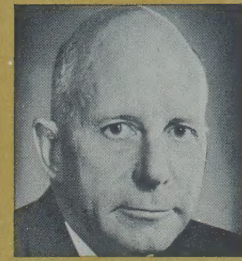
Halifax:

T. C. Achilles, Manager

Quebec:

J. Daignault, Manager (acting)

DIRECTORS



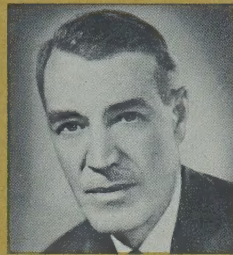
J. S. Rockefeller
NEW YORK
Chairman



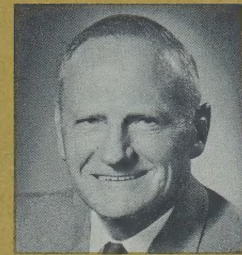
A. Bachand
MONTREAL
Director, Development Fund
Université de Montréal



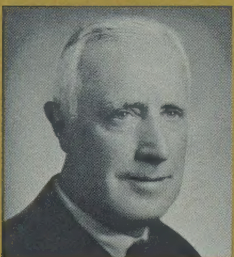
H. A. Benham
WINNIPEG
Chairman, The
Winnipeg Foundation



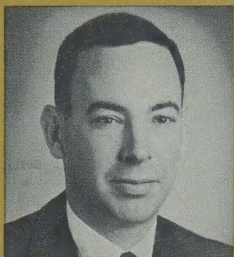
J. L. Black
SACKVILLE
Chairman, The New Brunswick
Telephone Co. Ltd.



W. J. Borrie
VANCOUVER
Chairman, Pemberton
Securities Limited



C. B. Brown
MONTREAL
President, Turner & Newall
(Overseas) Ltd.



S. B. Clifford
MONTREAL
Executive Vice-President
and General Manager



P. Côté
QUEBEC
Controller, Laval
Dairy Reg'd



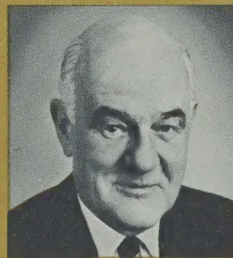
R. F. Elliott, Q.C.
MONTREAL
Stikeman, Elliott, Tamaki,
Mercier & Turner



Hon. L. P. Gélinas
MONTREAL
President, Geoffrion, Robert
& Gélinas Inc.



A. C. Howkins
TORONTO
Vice-President and
Deputy General Manager



R. P. MacFadden
NEW YORK
President



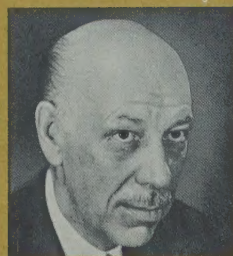
H. T. Mitchell
VANCOUVER
President,
Mitchell Press Ltd.



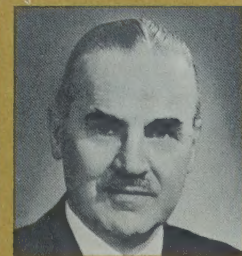
K. B. Palmer
O.B.E., Q.C., D.C.L.
TORONTO
Borden, Elliot, Kelley & Palmer



A. T. Seedhouse
TORONTO
President, Manufacturers
Life Insurance Company



E. H. Tanner, O.B.E.
CALGARY
Chairman, Triad Oil
Co. Ltd.



Maj.-Gen. A. E. Walford
C.B., C.B.E., M.M.
MONTREAL
Chairman, Canadian Vickers Ltd.



THE MERCANTILE BANK OF CANADA

ASSETS

Gold and coin		\$ 27,934
Notes of and deposits with Bank of Canada		8,496,986
Government and bank notes other than Canadian		48,939
Deposits with other banks		49,232,512
Cheques and other items in transit, net		<u>435,563</u>
		58,241,934
Government of Canada direct and guaranteed securities, at amortized value	\$15,885,729	
Canadian provincial government direct and guaranteed securities, at amortized value	512,538	
Other securities, not exceeding market value	<u>2,086,028</u>	18,484,295
Day-to-day, call and short loans to investment dealers and brokers, secured		<u>18,132,161</u>
		94,858,390
Other current loans, less provision for estimated loss ...	122,329,769	
Non-current loans, less provision for estimated loss	<u>7,635</u>	122,337,404
Bank premises at cost, less amounts written off		571,875
Customers' liability under acceptances, guarantees and letters of credit, as per contra		6,895,099
Other assets		<u>238,155</u>
		<u>\$224,900,923</u>

ROBERT P. MacFADDEN
President

S. B. CLIFFORD
General Manager

Statement of Assets and Liabilities — October 31, 1966

LIABILITIES

Deposits by Government of Canada	\$	667,426
Deposits by Canadian provincial governments		6,178,669
Deposits by other banks		10,781,725
Personal savings deposits payable after notice, in Canada, in Canadian currency		3,218,120
Other deposits		<u>186,794,291</u>
		207,640,231
Acceptances, guarantees and letters of credit		6,895,099
Other liabilities		<u>356,226</u>
Capital:		214,891,556
Authorized —		
1,000,000 shares of \$10 each	\$10,000,000	
Paid up —		
800,000 shares issued and fully paid ..	\$8,000,000	
Rest account	2,000,000	
Undivided profits	<u>9,367</u>	<u>10,009,367</u>
		<u>\$224,900,923</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the statement of assets and liabilities of The Mercantile Bank of Canada as of October 31, 1966, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The above statement of assets and liabilities

is as shown by the books at the head office and the certified returns from the branches. The transactions of the Bank which have come under our notice have, in our opinion, been within its powers.

In our opinion, the above statement of assets and liabilities presents fairly the financial position of the Bank as of October 31, 1966.

L. P. BELAIR, C.A.
of Samson, Bélair, Côté, Lacroix & Associés

J. S. GRANT, C.A.
of Peat, Marwick, Mitchell & Co.

Montreal, Que., December 7, 1966

PRESIDENT'S ADDRESS

As 1966 progressed, the economic boom in Canada and the United States began to taper off. Nevertheless, inflationary pressures, created by almost full utilization of industrial capacity and labor shortages, continue strong as we move into 1967. The cost of living rose 2.7% during the first 7 months of 1966, compared with an increase of less than 2% in the same period of 1965. Labor unions were successful in gaining wage increases and other fringe benefits well in excess of suggested guidelines and in excess of gains in productivity. These settlements, several of which followed costly strikes, contributed to further increases in costs, many of which have not yet registered in official cost-of-living figures.

Although the Government has sought to dampen capital spending, and indeed has itself postponed some scheduled public works, the business community, unable to halt long-range plans in midstream, expected at mid-year to spend some 23% more in fixed capital formation than in 1965. One reason for this large increase is, of course, the rise in wage costs than has accelerated in the past year. A second reason is the fear of businessmen that the costs of the proposed investments would be still higher if deferred. Only residential construction, hampered by credit shortages and record-high interest rates, was reduced in 1966.

In the international sector, the trade balance has shown considerable improvement over 1965. Exports through August ran 19.5% over 1965, while imports rose more slowly. Under the 1965 auto-parts agreement, Canadian exports of automotive vehicles and parts to the United States have increased far more rapidly than U.S. shipments to Canada. Poor crops in Russia and China have again boosted wheat sales and, despite a record crop in 1965/66, the Canadian carryover is down to

a manageable 600 million bushels. Whether this year's bumper crop in the Soviet Union will have a deleterious effect on Canadian sales next year remains to be seen. Since 1963, Russia has purchased Canadian wheat and flour valued at some \$1 billion. Only a relatively small number of Canadian exports, chiefly consumer durables, have been affected by British austerity measures.

Imports, too, have risen, but partly as a result of the truckers' strike in Ontario early in the year, which affected imports more than exports and partly because of a slowing in demand, the import rise was held down to about 16% through August.

As in the United States, inflationary pressures remain the major problem. In an attempt to take the steam out of the boom, the Federal Government took several measures in March to hold down business spending. These measures included reduced depreciation allowances for capital equipment and a new refundable 5% tax on corporation profits, the refund to be made 18 to 36 months after the tax is received, depending on the state of the economy. Corporate liquidity finally began to shrink toward the close of the year and a continuing tight money policy by the Bank of Canada has limited the expansion of bank credit.

Despite these measures, however, there was a definite quickening in the Canadian economy in the third quarter, stimulated by early introduction of new auto models, an injection of Federal money into the housing market and a strong flow of exports partly in response to U.S. demand resulting from escalation of the war in Vietnam. In October, Finance Minister Sharp announced further curtailment of government spending and the impending imposition of new taxes. He also announced that to encourage savings, interest rates on Canadian

Government 1966 bond issues would carry an unusually high interest yield.

If the Government's efforts to dampen the boom are successful, 1967 should be another prosperous year, with a manageable growth in the economy. It is obvious, however, that each segment of the economy must make every effort to keep rising costs and prices within reasonable limits. Wage parities with our neighbour to the south are possible of

achievement only through substantial increases in productivity. The Government must have the courage to adopt bold policies to encourage and promote these increases in output which can, in the long run, deal most effectively with rising costs and prices.

ROBERT P. MacFADDEN

Annual Meeting — December 14, 1966, Montreal

REPORT OF THE GENERAL MANAGER

It is with pleasure that we report on our operations for the past year. Our major efforts during 1966 were directed to consolidating gains made in 1964-1965. Coincident with important growth in our business in every branch there has been substantial improvement in uniform operating procedures and controls.

FINANCIAL REVIEW Any review of this Bank should break down our Balance Sheet into Canadian, and non-Canadian assets and liabilities. There has been a real growth in Canadian dollar assets during the past few years from \$37 million in September, 1963 to \$107 million in October, 1966. As Canadian assets grew during 1966 our foreign assets, almost wholly in liquid U.S. dollar money market investments, declined moderately. Signifi-

cant statistics for 1966 show a growth in Canadian dollar assets over 1965 based on monthly averages of 70% and most significantly demand deposits in all currencies of 21%. While our loan policy has been increasingly selective this past year, we have stayed alert to productive and challenging new lending opportunities.

Our portfolio is well-diversified and shows 86.5% of the borrowers to be companies that are wholly Canadian-owned or Canadian-controlled; 8.8% of the borrowers are U.S. companies or their subsidiaries operating in Canada which account for less than 25% of our outstandings. These figures exclude brokers' loans and other money market transactions.

A personal credit department was established this year with headquarters in Toronto. We are also emphasizing all retail banking services, and in particular savings accounts which today account for a small part of our total Canadian deposits.

Profits suffered this year for many reasons, including a substantial rise in the cost of funds; the cumulative effect of four new branches opened in the past two years on top of the original three; and the expenses of recruiting and training new staff. At best our profitability for this year was at the break even level and substantially lower than that of the past two years. We are confident that 1967 will show an important profit improvement.

BANK ACT REVISION The proposed Bill C-222 which is now before the House Committee on Finance, Trade and Economic Affairs for review, if passed, will result in making the banks more competitive with other financial institutions. At least the bill gives recognition to the inadequacies of a fixed ceiling. An increase in the ceiling as proposed, will permit some spread between various types of risks and expand the pool of eligible bank borrowers. We object, of course, to Section 75 (2)(g) of the bill which seeks to limit our growth. We will present our views in full to the Standing Committee on Finance, Trade and Economic Affairs of the House of Commons which is holding hearings on Bill C-222.

OPERATIONS All branches now operate under a new and uniform accounting and procedures system. A number of the young men and women we have recruited over the past three years now occupy junior official responsibilities in Operations. All branches are now adequately staffed.

Quebec Branch opened officially in January in premises designed along traditional French-Canadian lines. We expect to move into our new Toronto headquarters early in 1967 in the new Richmond-Adelaide complex just south of the Toronto City Hall. In Winnipeg our

branch will expand into adjoining space to accommodate our growing business in Manitoba. With these moves we believe that all of our present facilities are adequate to handle an expanded business.

EXPO '67 The Mercantile Bank is a participant in the International Trade Centre at the World's Fair, and will have a fully staffed office to advise customers and visitors from around the world on Canada. Our parent, First National City Bank, is co-operating fully in promoting the Fair as well as Canada's Centennial celebrations through its branches and affiliates in sixty countries.

PERSONNEL Total staff on October 31st was 356, an increase of 29% over October 31st, 1965. Our consistent policy has been to recruit and train qualified Canadians to run the affairs of the Mercantile Bank in the future. Of our total staff, only 14 are Americans on loan by First National City Bank. They are spread throughout the Bank at all levels and have been providing great strength as we have grown. The challenges of a career in banking have never been greater. Our industry faces revolutionary technological changes in the next few years which will require top quality brains and professional skills.

During the year 31 men and women were appointed to official positions; 68% of our 84 officers are under forty years of age.

We are proud of the contribution our staff has made not only to the Bank but in the many ways in which they serve the communities where they live. We extend our thanks to them for their loyal and effective services.

OUTLOOK 1967 should show good growth in our Canadian business. Our major efforts will be directed towards improving profitability, operating efficiency and market penetration. There is a good future for a bank with our special characteristics.

STEWART B. CLIFFORD

Annual Meeting — December 14, 1966, Montreal

MERCANTILE BANK OF CANADA AT EXPO '67

The Mercantile Bank of Canada will have an office in the International Trade Centre at Expo '67. A sketch of our quarters at the world exhibition to be staged in Montreal from April 28 to October 27 is shown below. The Mercantile office at Expo '67 will be staffed by officers well qualified to discuss Canadian business opportunities with the many businessmen from other countries who are expected to visit Montreal during the Expo period.



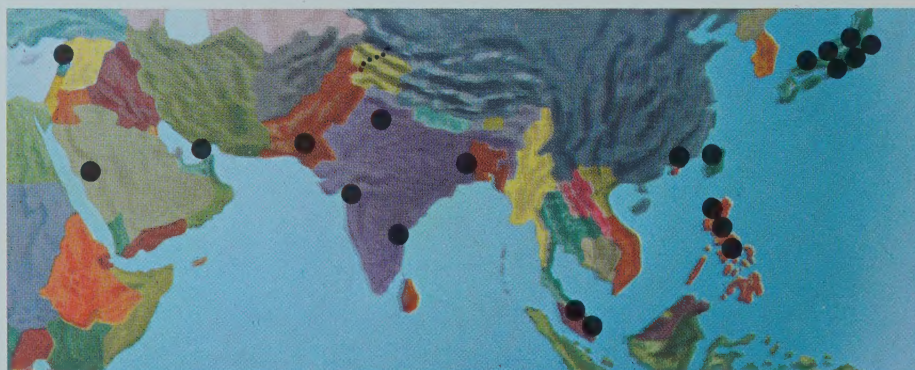


WORLD-WIDE BANKING SERVICES

Canadian businessmen have direct access to the world-wide facilities of First National City Bank through The Mercantile Bank of Canada.

The services of more than 300 banking branches and offices of affiliates can be quickly employed to provide on-the-spot service in 59 countries of the Free World.

Your nearest Mercantile Bank office can give full information.



CITIBANK FACILITIES AROUND THE WORLD

Argentina	Buenos Aires (6 branches) Cordoba Lomas de Zamora Mendoza Rosario	Ecuador	Quito (2 branches) Guayaquil	Malaysia	Kuala Lumpur (2 branches) Penang
Australia	Sydney (Representative Office)	El Salvador	San Salvador	Mexico	Mexico City (5 branches)
Bahamas	Nassau FIRST NATIONAL CITY TRUST COMPANY (BAHAMAS) LTD. Nassau	England	London (2 branches) NEW YORK LONDON TRUSTEE CO. LIMITED London	Netherlands	Amsterdam
Belgium	Brussels Antwerp	France	Paris	Pakistan	Karachi
Bolivia	La Paz	Germany	Berlin Frankfurt Hamburg	Panama	Panama (5 branches) Colon
Brazil	Rio de Janeiro Belo Horizonte Brasilia Campinas Curitiba Porto Alegre Recife (Pernambuco) Salvador (Bahia) Santos Sao Paulo (2 branches)	Greece	Athens	Paraguay	Asuncion (2 branches)
Canada	INTERNATIONAL TRUST COMPANY Montreal Toronto	Guantanamo Bay	Military Banking Facility*	Peru	Lima (2 branches) Callao
Canal Zone	Balboa	Honduras	BANCO DE HONDURAS S.A. Tegucigalpa (2 branches) Choluteca Comayaguela (2 branches) San Pedro Sula	Philippines	Manila (2 branches) Cebu Clark Air Base
Chile	Santiago (5 branches) Concepcion Valparaiso (2 branches)	Hong Kong	Hong Kong Causeway Bay Kowloon	Puerto Rico	San Juan (5 branches) Arecibo Bayamon Caguas Mayaguez (2 branches) Ponce
China, Rep. of	Taipei, Taiwan	India	Bombay (2 branches) Calcutta (2 branches) Madras New Delhi	Saudi Arabia	Jeddah Riyadh
Colombia	Bogota (2 branches) Barranquilla Cali Cartagena Medellin	Ireland	Dublin	Singapore	Singapore (2 branches) Jurong
Dominican Rep.	Santo Domingo (2 branches)	Italy	Milan	South Africa	THE FIRST NATIONAL CITY BANK OF NEW YORK (SOUTH AFRICA) LTD. Johannesburg Cape Town (2 branches) Durban Port Elizabeth
		Jamaica	Kingston	Switzerland	Geneva Zurich
		Japan	Tokyo Nagoya Osaka Yokohama Camp Zama* Iwakuni*	Trinidad and Tobago	Port-of-Spain
		Lebanon	Beirut	Trucial States	Dubai
		Liberia	THE BANK OF MONROVIA Monrovia Bomi Hills Buchanan Harbel Nimba	United States	FIRST NATIONAL CITY BANK-HEADQUARTERS New York
			*Military Facility	Uruguay	Montevideo (2 branches)
				Venezuela	Caracas (2 branches) Maracaibo Valencia
				Virgin Islands	Christiansted, St. Croix

BRANCHES AND OFFICES OF CITIBANK AFFILIATES

Banco de Financiacion Industrial (Induban)
Spain Madrid

Hill, Samuel & Company, Ltd.
England London

Banque Internationale pour l'Afrique Occidentale

France	Paris Bordeaux Marseilles	Dahomey	Cotonou	Niger	Niamey Magaria Maradi Zinder
Cameroon	Yaounde Douala Ebolowa Garoua	Gabon	Libreville Lambarene Mouila Port-Gentil	Nigeria	Lagos Apapa Kano Port-Harcourt
Central African Republic	Bangui	Ivory Coast	Abidjan (2 branches) Adjame Bouake Cocody Treichville	Senegal	Dakar (2 branches) Kaolack Ziguinchor
Chad	Fort-Lamy Fort-Archambault	Mali	Bamako	Togo	Lome
Congo Republic	Brazzaville Pointe-Noire	Mauritania, Islamic Rep. of	Nouakchott Port-Etienne	Upper Volta	Ouagadougou Bobo-Dioulasso



THE MERCANTILE BANK OF CANADA

AFFILIATED WITH

FIRST NATIONAL CITY BANK